

## Message Text

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INFO OCT-01 EUR-25 ISO-00 NIC-01 SAJ-01 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01

PRS-01 SP-03 SS-20 USIA-15 AID-20 COME-00 EB-11

FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01

OMB-01 DRC-01 /179 W

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R 110858Z JUL 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 1457

INFO USLO PEKING

AMEMBASSY MOSCOW

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 7807

E.O. 11652: N/A

TAGS: ETRD CH

SUBJ: PRC MINISTER OF FOREIGN TRADE STATEMENT

SUMMARY: PRC FOREIGN TRADE MINISTER LI CH'ANG, IN THE FIRST AUTHORITATIVE STATEMENT ON CHINA'S FOREIGN TRADE TO APPEAR IN YEARS, HAS PUBLISHED AN ARTICLE IN THE JULY ISSUE OF THE PRC QUARTERLY CHINA'S FOREIGN TRADE. BASED ON THE NCNA ACCOUNT OF THE ARTICLE (WHICH IS NOT YET AVAILABLE IN HONG KONG), IT APPEARS THAT ITS BASIC THRUST IS IN DEFENSE OF CHINA'S PAST AND CURRENT TRADE POLICY AND SETS FORTH A JUSTIFICATION FOR FURTHER EXPANSION OF TRADE INCLUDING A CONTINUED INCREASE IN IMPORTS. IT ALSO ACKNOWLEDGES BOUNDS THAT ARE NOT TO BE OVERSTEPPED IN PURSUING A POLICY OF EXPENDED FOREIGN TRADE. END SUMMARY

1. THE MOST AUTHORITATIVE STATEMENT OF PRC TRADE POLICY IN YEARS HAS APPEARED IN AN ARTICLE BY CHINESE FOREIGN TRADE MINISTER LI CH'ANG, ENTITLED " NEW DEVELOPMENTS IN CONFIDENTIAL

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CHINA'S FOREIGN TRADE". (ACCORDING TO CONGEN RECORDS

THE MOST RECENT COMPARABLE STATEMENT WAS MADE PRIOR TO THE CULTURAL REVOLUTION BY THEN ACTING FOREIGN TRADE MINISTER LIN HAI-YUN IN AN ARTICLE APPEARING IN THE JANUARY 1965 PEKING REVIEW. ) LI'S ARTICLE, EXCERPTS OF WHICH ARE CARRIED BY NCNA ON JULY 9, APPEARS IN THE JULY ISSUE OF THE QUARTERLY CHINA'S FOREIGN TRADE IN BOTH CHINESE AND ENGLISH EDITIONS. THIS IS THE FIRST ISSUE OF THE QUARTERLY SINCE IT CEASED PUBLICATION DURING THE CULTURAL REVOLUTION.

2. BASED ON NCNA, OUR INITIAL ASSESSMENT OF THE POINTS MADE BY LI INCLUDE THE FOLLOWING:

A. TRADE VOLUME. LI STATES THAT IN 1973 TOTAL TRADE VALUE WAS 2.5 TIME THAT OF 1965, THE YEAR BEFORE THE START OF THE CULTURAL REVOLUTION. ON THE BASIS OF UNADJUSTED DEPARTMENT OF COMMERCE FIGURES FOR 1965, THIS WOULD EQUAL ALMOST \$9.4 BILLION, AND IS THE FIRST AUTHORITATIVE CHINESE CONFIRMATION ON THIS LEVEL OF TRADE.

B. COMPOSITION OF TRADE. LI STATES THAT MINING AND INDUSTRIAL PRODUCTS NOW ACCOUNT FOR 65 PERCENT OF EXPORTS. THE SAME PERCENTAGE WAS CITED BY NCNA IN A DECEMBER 1973 END OF THE YEAR TRADE STATEMENT. HE ALSO POINTS OUT THAT CHINA'S MANUFACTURED GOODS ARE NOW MORE RESPONSIVE TO FOREIGN TASTE IN TERMS OF COLORS, DESIGNS, PACKING AND PRESENTATION.

C. CHINA BALANCES IT INTERNATIONAL INCOME AND EXPENDITURES. THIS REPRESENTS A SHIFT IN EMPHASIS FROM THE PRC'S TRADITIONAL TERM OF REFERENCE, BALANCE OF TRADE, WHERE THERE WAS AN ESTIMATED DEFICIT OF \$500 MILLION IN 1973, TO A BALANCE OF PAYMENTS FRAMEWORK. THIS TYPE OF FORMULATION MAY BE AN ATTEMPT TO SHIFT ATTENTION AWAY FROM A PERHAPS EMBARRASSING TRADE DEFICIT IN 1973 (WITH A LARGER ONE PROBABLY IN STORE IN 1974). SINCE WE BELIEVE NO RESERVES WERE PAID OUT, IT ALSO IS AN IMPLIED ACKNOWLEDGEMENT THAT BORROWING TOOK PLACE TO COVER THE DEFICIT. WE ESTIMATE CHINA'S BALANCE OF PAYMENTS DEFICIT IN 1973 TO BE AROUND \$400 MILLION, COVERED LARGELY BY RELATIVELY SHORT-TERM BORROWINGS OF ONE TO EIGHTEEN MONTHS (HK 4861).

D. ECONOMIC INDEPENDENCE. AFTER REVIEWING THE PRC'S HISTORY OF MAINTAINING ITS ECONOMIC INDEPENDENCE IN THE FACE OF "IMPERIALIST BLOCKADES AND EMBARGOES" AND PRES-

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SURE FROM "SOCIAL IMPERIALISM" (I.E. THE USSR) LI POINTS OUT THAT THIS DOES NOT MEAN PURSUING A "CLOSED -DOOR" POLICY. HE USED QUOTES FROM MAO TO SUPPORT EXPANSION OF TRADE AS A MEANS TO "LEARN FROM OTHER COUNTRIES' MERITS" AND OBTAIN "NECESSARY MATERIALS, EQUIPMENT AND TECHNIQUES THROUGH EXCHANGE." THIS IS STANDARD TERMINOLOGY WHICH COULD BE USED TO JUSTIFY VARIOUS LEVELS OF IMPORTS OF MATERIAL AND TECHNOLOGY. IT IS RELATIVELY RESTRAINED LANGUAGE,

WHICH CAN BE FIT IN WITH THE LEFTIST THEME OF SELF RELIANCE WITHOUT CARRYING IT TO AN EXTREME.  
E . PLANNED EXPANSION OF BALANCED TRADE. LI EMPHASIZES THAT CHINA'S FOREIGN TRADE MUST DEVELOP IN "STEADY STEPS" ACCORDING TO ITS "REQUIREMENTS AND POTENTIALITIES." HE ALSO POINTS OUT THAT THE CONTINUED GROWTH OF THE ECONOMY. AS IT IS PROMOTED BY THE CURRENT POLITICAL MOVEMENT, WILL ENABLE CHINA TO EXPORT MORE AND AT THE SAME TIME INCREASE IMPORTS " ACCORDINGLY". HE CHARACTERIZES CHINA'S POTENTIAL IN FOREIGN TRADE AS "SUBSTANTIAL " AND PREDICTS THAT TRADE WITH OTHER COUNTRIES WILL CONTINUE TO BROADEN. BY PROMISING INCREASED TRADE ON A WIDER SCALE, LI APPEARS TO BE REASSURING TRADE PARTNERS OF A CONTINUED AND DEVELOPING RELATIONSHIP. ONE WOULD EXPECT TO HEAR THIS SORT OF LANGUAGE IN A PUBLICATION THAT IS, AFTER ALL, ADDRESSED PRIMARILY TO FOREIGN READERS.

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ACTION EA-14

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INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

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C O N F I D E N T I A L SECTION 2 OF 2 HONG KONG 7807

PERHAPS MORE STRIKING, HOWEVER, IS THE EMPHASIS HE SEEMS TO PLACE ON A PLANNED RATE OF GROWTH AND HIS APPARENT LINKING OF IMPORTS TO EXPORT GROWTH. IF THERE IS ANY SIGNI

FICANCE TO THIS, IT MAY BE THAT HE IS SIGNALING A RETURN TO A MORE BALANCED EXPORT-IMPORT POLICY, ALTHOUGH THE NCNA ACCOUNT SI TO GENERAL THAT IT IS COMPATIBLE WITH A SMALL OR FAIRLY LARGE DEFICIT OVER A ONE YEAR OR MEDIUM-TERM PERIOD. THE DIRECT EVIDENCE IS SCANTY. FOR THE LONGER RUN, WE HAVE A TENTATIVE IMPRESSION THAT THE PURCHASE OF COMPLETE PLANTS MAY BE SLOWING DOWN. BUT GIVEN THE LONG LEAD TIME BETWEEN SIGNATURE OF CONTRACT AND SHIPMENT, THIS DEVELOPMENT, IF TRUE, WOULD NOT AFFECT ACTUAL IMPORTS BEFORE 1976. ON THE OTHER HAND, CHINA'S FIRST QUARTER TRADE FEFICIT IN 1974 WITH ITS SIX LARGEST NON-COMMUNIST TRADE PARTNERS (ACCOUNTING FOR 60 PERCENT OF NON-COMMUNIST TRADE) WAS UP WITH IMPORTS A WHOPPING 94 PERCENT AND EXPORTS UP 54 PERCENT. NATURALLY , MUCH OF THIS SI ATTRIBUTABLE TO PRICE INCREASES (THE PRICES OF HONG KONG IMPORTS IN FIRST QUARTER 1974 WENT UP 35 PERCENT OVER THE FIRST QUARTER OF 1973).  
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F. JOINT EXPOLOTATION VENTURES. LI POINTS TO THE SOVIETS AS A BAD EXAMPLE IN STATING FLATLY THAT CHINA WILL NEVER TRY TO ATTRACT FOREIGN CAPITAL OR WORK UNDER A JOINT MANAGEMENT SCHEMES WITH OTHER COUNTRIES IN EXPOLITING DOMESTIC OR FOREIGN RESOURCES, NO WILL IT "GROVEL" FOR FOREIGN LOANS. THE LANGUAGE ITSELF IS NOT EXCEPTIONAL. THAT IT APPEARS IN THE CTNTEXT OF AN AUTHORITATIVE STATEMENT ON FOREIGN TRADE CERTAINLY MUST DISCOURAGE FOREIGN BUSINESSMEN FROM PURSUING THIS LINE. IN THE CONTEXT OF THE CURRENT CAMPAIGN IT MAY ALSO BE AIMED AT BLUNTING DOMESTIC CRITICISM BY HOLDING UP CERTAIN FUNDAMENTAL PRINCIPLES NOT TO BE VIOLATED NT MATTER HOW MUCH TRADE MAY EXPAND.

3. CTMMENT: THE BASIC THRUST OF THE ARTICLE (AS CARRIED BY NCNA) APPEARS TO BE A DEFENSE OF THE POLICY OF EXPANDED FOREIGN TRADE WITH THE PROMISE OF CONTINUED EXPANSION, ALBEIT AT A PLANNED, MEASUREEE PACE THAT DOES NOT OVERSTEP LEFTIST SENSITIVITIES OF SELF RELIANCE. THUS IT MAKES A DEFENSE OF PAST POLICY, JUSTIFIES EXPANDING TRADE ON POLITICAL AS WEEL AS ECONOMIC GROUNDS, PROJECTS THE EXPORT OF "MORE AND BETTER GOODS" , DEFENDS INCREASING IMPORTS "ACCORDINGLY" , AND SEEKS TO BLUNT LEFTIST ATTACKS ON THESE POLICIES BY REASSURING THEM THAT THERE ARE BOUNDS THAT ARE NOT TO BE OVERSTEPPED EVEN IN GREATLY EXPANDING CHINA'S FOREIGN TRADE.  
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## Message Attributes

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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**TAGS:** ETRD, CH, (LI CHIANG)  
**To:** STATE  
**Type:** TE  
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